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Industrial Minerals of Canada Limited

Minéraux Industriels du Canada Limitée

1965 Annual Report

Year in Brief 1965

Operating Summary

Net Sales	$3,797,816
Depreciation and amortization	681,052
Earnings before income tax	704,046
Income tax	220,000
Net profit	484,046
Cash recovered from operations	1,165,098
Dividends paid	421,056

Financial Position

Current assets	$1,944,011
Current liabilities	226,267
Working capital	1,717,744
Current ratio	8.6:1
Equity	7,446,383

Per Share

Net profit	$ 0.565
Dividends paid	0.50
Equity	8.69
Cash recovered from operations	1.36

Miscellaneous

Issued capital—shares	856,855
Number of shareholders	1,901
Number of employees	165

Shares listed—Toronto Stock Exchange
—Canadian Stock Exchange

The Annual Meeting of the Shareholders of Industrial Minerals of Canada Limited will be held in the York Room, King Edward Sheraton Hotel, 37 King Street East, Toronto, on **Wednesday, the 13th of April, 1966,** at the hour of 2:30 o'clock in the afternoon.

Head office

7 King Street East, Toronto 1

Directors

P. L. Dessaulles—Montreal, Quebec
H. J. Fraser—Toronto, Ontario
F. D. Hart—Nashville, Tennessee
J. J. Mather—Toronto, Ontario
J. T. McWhirter—Toronto, Ontario
R. C. Mott—Toronto, Ontario
G. T. N. Woodrooffe—Toronto, Ontario

Officers

H. J. Fraser—*President*
J. J. Mather—*Executive Vice-President and Managing Director*
R. C. Wilson—*Director of Research*
D. D. Anderson—*Secretary*
J. D. K[illegible]—*Assistant Secretary*
J. T. McWhirter—*Treasurer*
J. R. McKeeman—*Assistant Treasurer*

Sales offices

General Sales Office—7 King Street East, Toronto 1, Ontario
Manager—C. M. Woodruff
American Nepheline Corporation—4720 Kenny Road, Columbus, Ohio
Manager—L. A. Holmes

Sales representatives in

Germany, France, Holland, Belgium, U.K., Italy, Australia and Greece

Subsidiaries

American Nepheline Corporation—wholly owned

Transfer agents

Crown Trust Company, 302 Bay Street, Toronto, Ontario

Auditors

McColl, Turner & Co., Peterborough, Ontario

Solicitors

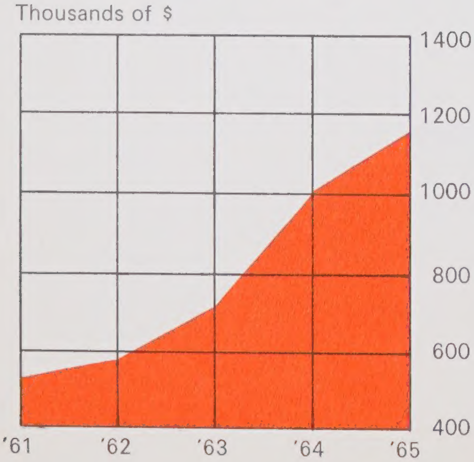
Roberts, Archibald, Seagram & Cole, Toronto, Ontario

Ten year statistical summary	1956	1957	195
Sales	$2,336,998	$2,054,204	$1,776,08
Profit before write-offs and taxes	735,222	612,313	608,04
Depreciation and amortization	262,842	389,135	380,57
Corporation income taxes	162,000	68,500	67,80
Net income	310,380	154,678	159,67
Net income per share	.76	.38	.3
Shareholders' equity	2,393,397	2,394,312	2,510,57
Shareholders' equity per share	5.82	5.82	6.1
Dividends	164,000	164,000	164,00
Dividends per share	.40	.40	.4
Expenditures on plant and equipment	1,800,789	134,151	77,80

Per share calculations 1963 and prior years - 410,000 shares
Per share calculations 1964 - 820,000 shares
Per share calculations 1965 - 856,855 shares

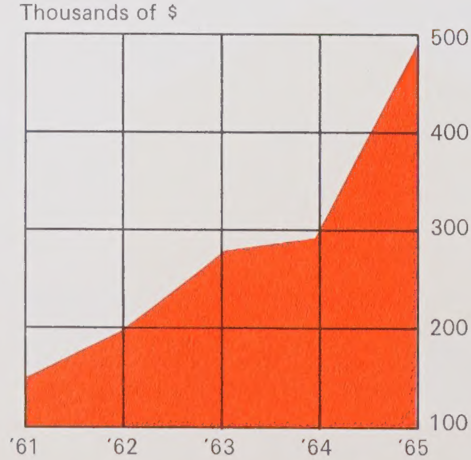
Cash Flow from Operations

Thousands of $



Net Earnings

Thousands of $



Working Capital

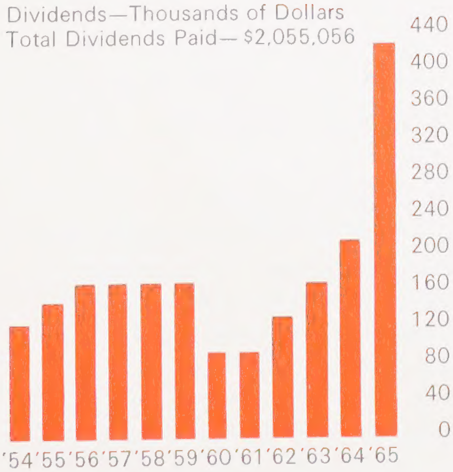
Thousands of $

1959	1960	1961	1962	1963	*1964	*1965
$1,814,827	$1,772,064	$1,544,247	$1,827,981	$2,000,318	$3,785,218	$3,797,816
561,921	541,586	592,686	631,350	725,502	1,136,653	1,385,098
372,543	364,925	376,940	374,439	426,127	711,955	681,052
59,000	51,000	70,232	58,702	21,054	135,000	220,000
130,378	125,661	145,514	198,209	278,321	289,698	484,046
.32	.31	.35	.48	.68	.35	.56
2,514,757	2,557,228	2,630,071	2,828,798	2,950,320	7,339,990	7,446,383
6.14	6.25	6.40	6.90	7.19	8.95	8.69
164,000	82,000	82,000	123,000	164,000	205,000	421,056
.40	.20	.20	.30	.40	.50	.50
81,930	44,253	34,538	148,643	205,086	380,040	319,808

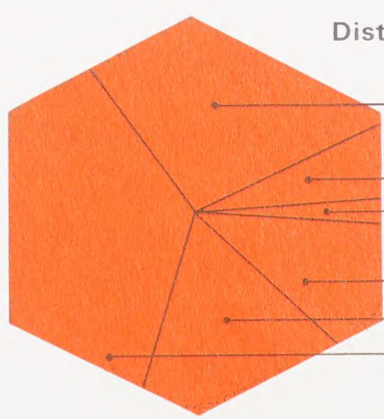
*Includes Canadian Silica Corporation Limited

Dividend Record

Dividends—Thousands of Dollars
Total Dividends Paid—$2,055,056



Distribution of Sales Dollar



	1965 %	1964 %
Wages, salaries and employee benefits	27.60	32.50
Taxation	5.79	3.57
Retained and used in the business	1.66	1.98
Dividends	11.09	5.42
Depreciation and amortization	17.93	18.81
Materials, supplies and service	35.93	37.72
	100.00	100.00

Report of the Directors

To the Shareholders:

Early in 1965 your Directors submitted to the Shareholders a proposal for the statutory amalgamation of Industrial Minerals of Canada Limited and its two subsidiaries, Indusmin Limited, wholly owned, and Canadian Silica Corporation Limited, 92.9% owned. On June 28th each of the three companies held a General Meeting of the Shareholders during the course of which the Directors were authorized and empowered to proceed with the Amalgamation as proposed.

Letters Patent of Amalgamation were issued on June 30th. The Amalgamated Company retained the name Industrial Minerals of Canada Limited. Authority also was granted to adopt a translation of the corporate name in the French language in the form and style, "Minéraux Industriels du Canada Limitée."

The Shareholders of the original Industrial Minerals were unaffected by the amalgamation. A physical exchange of share certificates was not required. Shares were converted on a one-for-one basis.

The Amalgamation Agreement provided for the issue of one share in the Amalgamated Company for each eleven shares of Canadian Silica outstanding.

The issued capital of Industrial Minerals is now 856,855 shares, an increase of 36,855 from the 820,000 shares outstanding at the end of 1964.

As predicted at the time the amalgamation proposals were submitted to the Shareholders, this streamlining of the corporate organization has substantially reduced overhead costs.

Financial Review

The figures for 1965 consolidate for the first time the results for both the nepheline syenite and silica operations. The 1964 figures, published independently in that year have been restated to permit comparison, they do not include the lime operation.

	1965		1964	
Sales				
Nepheline Syenite - - - - -	$2,235,511		$2,088,408	
Silica - - - - - - - - - -	1,562,305		1,578,945	
		$3,797,816		$3,667,353
Cost of Products Sold				
Nepheline Syenite - - - - -	$ 893,650		$ 792,561	
Silica - - - - - - - - - -	1,064,121		1,131,095	
		$1,957,771		$1,923,656
Selling, General, Administrative expense - -		$ 472,338		$ 571,957
Write-offs - - - - - - - - - - - - -		$ 681,052		$ 711,955

Working Capital

Cash recovery from operations—$1,165,098
Working capital —$1,717,744

Dividends

Dividend payments in 1965 totalled $421,056

Record date	Date paid	Amount
June 15	June 25	20c
December 3	December 15	20c+10c

Marketing

	1965	1964	% Change
Total sales—Nepheline Syenite and Silica - -	$3,797,816	$3,667,353	3.6
Nepheline Syenite			
Sales in dollars - - - - - - - - - -	2,235,511	2,088,408	7

In 1965, a new record was established in terms of tons sold. However, the all-time high in dollar volume ($2,336,998 in 1956) remains unsurpassed. The current price levels for glass-making products are still appreciably below those in effect in 1956. Important quantities of Lakefield® and Minex® grades of nepheline syenite were delivered to eight countries, and in minor amounts to another thirteen.

In the overseas markets your company competes with a Norwegian source of nepheline syenite. Competition, particularly in Europe, has been keen, but prices

for the most part have weakened only slightly. We are at a disadvantage from the standpoint of transportation costs. However, by shipping large quantities in bulk and by maintaining stocks in the United Kingdom and Holland, we have been able to keep these costs within acceptable limits.

Competition in North America from sources in both the United States and Canada requires us to maintain an aggressive technically-oriented sales force. The support of the product development laboratory, second to none in the industry, is of vital importance.

Our projections for 1966 anticipate continuing growth in the sales volume.

Silica

	1965	1964	% Change
Sales in dollars - - - - - - - - - - - -	$1,562,305	$1,578,945	(1.1)

This first full year in the silica business has been a year of reorganization to strengthen our competitive position. Products have been redesigned to better suit the market requirements, and new products have been introduced. Not until the second half of the year were the full benefits of this program realized. If the rate of sales established in the second half had prevailed for twelve months, 1965 sales would have exceeded those in 1964.

Late in the year, after protracted negotiations, more favourable rail freight rates into the Toronto market area were obtained. This, undoubtedly, will be of material benefit. Heretofore deliveries were confined almost entirely to the Montreal region.

There will be no lessening of competition in 1966. We must continue to share the market with our Canadian competitor and the several United States companies exporting into Canada. However, our position has been improved, and we can anticipate obtaining a larger percentage of the potential market. Prior to 1963, practically all high-grade silica was imported from the United States. It is fair to say that our company has come to be recognized as a reliable and competent supplier. Our products are competitive in quality and price in all but a few of the potential applications.

Highlights of Production Operations

Nepheline Syenite Division

In 1965, as in previous years, sufficient ore was proven by diamond drilling to replace the ore consumed. Current reserves will support the demand for thirty years.

The purchase of a 5½ cubic-yard front-end loader to replace power shovels for loading trucks at the quarries has lowered costs and provided other improvements.

To meet the peak demands for glass-making materials occasioned by overseas deliveries, and to maintain a satisfactory surplus capacity, it was necessary to add equipment in the tertiary crushing circuit of the milling plant.

The product improvement and development program in 1965 effected two important changes. The physical specifications for grade A30 were modified and improved. A new grade, A40, was introduced. Both grades are sold to the glass industry.

With respect to labour relations, a three-year contract, expiring 11 October 1968, was negotiated. There were no work stoppages.

Expenditures on plant equipment and mine development amount to $168,363. The major expenditures were: front-end loader $72,000; additional crushing circuit $37,000; warehouse for bagging plant $22,000; diamond drilling and geological work $11,000. The authorized expenditure in 1966 is $129,000. Of this amount, $21,000 will be spent on diamond drilling, $65,000 on additions to the milling plant, and $23,000 for a new compressor.

Silica Division

The ore reserves at St. Canut, adjacent to the plant, will not be depleted for twenty years. If one includes the ore at Ste. Scholastique, some ten miles distant, reserves for an additional thirty years are available. During the year, ore from Ste. Scholastique was processed in a full-scale plant trial. These tests confirmed our predictions that this ore will yield a product of excellent quality with a significant reduction in process costs.

1965 was a year of major re-organization at the silica property. Every phase of the operation was placed under study. The improvements effected were numerous, but we have not yet exhausted the potential.

New drilling and blasting techniques were introduced with appreciable cost reduction. We are now, for the first time, mining during the winter months. The prior practice of stock-piling broken ore for winter processing will be discontinued.
The product improvement program left but very few grade specifications unaltered. The requirements of the customer and potential consumer have received every attention. The addition of grinding capacity in plant No. 1 enabled St. Canut late in the year to assume most of the Whitby commitments. The Whitby facility is now primarily a distribution centre for Ontario. The grinding plant operates infrequently and is maintained in a stand-by condition. The modifications to plant No. 2 were frequent, numerous, and of major consequence. The personnel at St. Canut are to be commended for accomplishing so much without disrupting production schedules.
Negotiations were opened at St. Canut for renewal of the labour contract which expires 13 January 1966. There were no work stoppages.
Capital expenditures in 1965 amounted to $162,197. A bin and improved load-out facilities costing $57,000 were installed at Plant No. 2. The addition of the grinding units in Plants No. 1 and No. 2 cost $46,000. The other major expenditure, $44,000, provided additional product bins at Whitby.
A capital budget of $135,000 has been approved for 1966: $30,000 will be spent on each of Plants 1 and 2 to increase grinding capacity; $15,000 for boiler replacement; $28,000 for plant modification; and $16,000 for the geological program.

Research and Development

In addition to fulfilling very ably its technical service function in the glass and ceramics fields, the Columbus research facility brought our paint and plastics technology to the point where it was possible to launch an appropriate sales program. It has been demonstrated that nepheline syenite is a superior mineral filler in many paint applications, particularly exteriors. In most plastics the use of nepheline syenite will improve brilliance while at the same time reducing the demand for the relatively expensive colour pigments. We anticipate unspectacular but steady growth in both paint and plastics.
During the year Dr. Koenig resigned as Research Director to establish a consulting practice. Our company is a client. We were fortunate indeed to have a man of Dr. Koenig's calibre guiding our research and development activities for so many years. In no small measure can our success be attributed to Dr. Koenig.
Dr. R. C. Wilson was appointed to the post of Research Director.
Product development work for the Silica Division is in an early stage but is gaining momentum.

Exploration and Corporate development

After having paused briefly to digest the acquisition of the Canadian Silica Corporation, we have renewed our quest for diversification.
A variety of mineral prospects, potential acquisitions and development opportunities are being systematically evaluated. Two of the proposals under study show particular promise justifying examination in depth.
The skills we have acquired, and the relationships we have established in our present marketing activities materially have broadened the type of diversification eligible for consideration.
For your information, a reprint of the feature story about your Company appearing in the December issue of the Toronto Stock Exchange Review, is enclosed.
The officers and employees have contributed, as usual, generously and conscientiously, their time and talents. On behalf of the Board of Directors, I express our appreciation.

Respectfully submitted

H. J. Fraser

Consolidated statement of operations

for the year ended 31st December 1965

	1965	Pro forma 1964
Sales of all products	$3,797,816	$3,785,218
Cost of products sold	1,957,771	2,005,157
Selling, general and administrative expenses (including remuneration to directors, as such, of $1,302 in 1965 and $1,768 in 1964)	472,338	571,957
	2,430,109	2,577,114
Operating profit before providing for development expenditures and depreciation	1,367,707	1,208,104
Development expenditures written off	51,938	78,881
Depreciation of plant and equipment	629,114	633,074
	681,052	711,955
Operating profit	686,655	496,149
Income from short term investments	22,579	16,437
	709,234	512,586
less		
Interest on bank loan	5,188	87,888
Profit before taxes based on income	704,046	424,698
Provision for taxes based on income—note 4	220,000	135,000
Net profit for the year	$ 484,046	$ 289,698

Auditors' report to the Shareholders

We have examined the consolidated balance sheet of Industrial Minerals of Canada Limited and its wholly-owned subsidiary company, American Nepheline Corporation as at 31st December 1965 and the consolidated statements of operations and retained earnings for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of operations and retained earnings present fairly the financial position of the companies as at 31st December 1965 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the amalgamated companies in the preceding year.

Our examination also included the accompanying statement of source and disposition of funds which, in our opinion, when considered in relation to the aforementioned financial statements, presents fairly the sources and dispositions of funds of the companies for the year ended 31st December 1965.

McColl, Turner & Co.
Chartered Accountants

Peterborough, Canada
23rd February 1966

Industrial Minerals of Canada Limited

(incorporated under the laws of Ontario)

Consolidated balance sheet

as at 31st December 1965

Assets

	1965	Pro forma 1964 (note 1)
CURRENT:		
Cash	$ 331,477	$ 526,488
Short term investments, at cost, approximately market value	671,238	321,676
Marketable securities		1
Accounts receivable for product and prepaid freight	763,854	839,845
Inventories of crude ore and finished products—valued at the lower of average cost or net realizable value	155,897	179,880
Prepaid expenses	21,545	15,598
	1,944,011	1,883,488
FIXED:		
Buildings, plant and equipment, at cost	7,921,617	7,678,371
less		
Accumulated depreciation	4,852,154	4,283,907
	3,069,463	3,394,464
Mining properties and land, at cost	127,620	126,649
Excess of the cost over the book value of the underlying net assets acquired—note 1	1,574,482	1,574,482
	4,771,565	5,095,595
OTHER:		
Mine and mill supplies, at cost	237,519	227,368
Deferred development expenditures, less amounts written off	165,973	207,159
Other mining properties and expenditures thereon	572,282	531,339
	975,774	965,866
	$7,691,350	$7,944,949

Liabilities and capital

	1965	Pro forma 1964 (note 1)
CURRENT:		
Bank advances - - - - - - - - - - - - - - - -	$	$ 180,695
Accounts payable and accrued charges - - - - -	90,298	234,401
Estimated income taxes payable - - - - - - - -	129,337	123,465
Notes payable secured by liens on equipment - - -		32,346
Principal payments on mortgage loans due within one year - - - - - - - - - - - - -	6,632	8,720
	226,267	579,627
LONG TERM:		
Mortgage loans, less amounts due within one year -	18,700	25,332
SHAREHOLDERS' EQUITY: (notes 1 and 3)		
Capital		
Authorized—1,000,000 shares with no par value		
Issued and fully paid—856,855 shares - - - - - -	6,323,560	6,323,560
Contributed surplus - - - - - - - - - - - - -	374,964	374,964
Retained earnings - - - - - - - - - - - - - -	747,859	641,466
	7,446,383	7,339,990
	$7,691,350	$7,944,949

Approved on behalf of the Board:

H. J. FRASER, *Director*

J. J. MATHER, *Director*

Consolidated Statements

for the year ended 31st December 1965

Consolidated statement of retained earnings

Retained earnings at 1st January 1965—note 1		$ 641,466
Net profit for the year		484,046
Gain on sale of shares of Quebec Lithium Corporation Limited		60,424
		1,185,936
deduct		
Dividends paid	$421,056	
Loss on disposal of equipment	17,021	438,077
Retained earnings at 31st December 1965		$ 747,859

Consolidated statement of source and disposition of funds

SOURCE OF FUNDS:	
Net profit for the year	$ 484,046
Charges against operations for depreciation and development expenditures which did not in themselves require a cash outlay during the year	681,052
Funds derived from operations	1,165,098
Sale of marketable securities	60,425
	1,225,523
DISPOSITION OF FUNDS:	
Expenditures on land, plant, equipment and mine development	332,858
Expenditures on other mining properties	40,943
Dividends paid to shareholders	421,056
Increase in mine and mill supplies	10,151
Provision for principal payments due within one year	6,632
	811,640
Resulting in an increase in working capital of	413,883
Working capital at beginning of year	1,303,861
Working capital at end of year	$1,717,744

Notes to the consolidated financial statements

1. On 30th June 1965, the statutory amalgamation of Industrial Minerals of Canada Limited with its wholly-owned subsidiary company, Indusmin Limited and Canadian Silica Corporation Limited was effected. Industrial's interest in Canadian Silica was acquired over the period September 1964 to May 1965 during which time no material changes took place in the financial position of that company. The determination of the book value of the net assets underlying the Canadian Silica shares purchased by Industrial has been based upon the audited balance sheet of Canadian Silica as at 31st December 1964. The purchase price of the shares—$3,890,622—exceeds the book value of the underlying assets by $1,574,482. Accordingly, the financial statements for 1965 have been prepared as if the amalgamation had taken place as of 1st January 1965.

For comparative purposes, a pro forma balance sheet and statement of operations for 1964 are presented on the assumption that the companies were amalgamated during that year.

The consolidated financial statements for 1965 reflect the financial position and the results of the operations of Industrial Minerals of Canada Limited (the Amalgamated Company) and its wholly-owned subsidiary company, American Nepheline Corporation.

2. Assets and liabilities in currencies other than Canadian dollars have been converted into Canadian dollars at current quoted rates of exchange at 31st December 1965 except fixed assets and the related accumulated depreciation which have been converted at the rates prevailing when the expenditures on the fixed assets were made. Revenues and expenses in currencies other than Canadian dollars have been converted into Canadian dollars at the average quoted rates of exchange except that provisions for depreciation have been converted at rates of exchange prevailing when the expenditures on the related fixed assets were made.

3. The effect of the transactions in note 1 on the capital and surplus of the Amalgamated Company is as follows:

	Industrial Minerals	Indusmin	Canadian Silica	Amalgamated Company
(a) Number of shares issued and outstanding as at 31st December 1964 and as at 30th June 1965				
—preferred		13,500		
—common	820,000	30,000	5,723,005	
Shares of Indusmin held by Industrial Minerals and cancelled on amalgamation				
—preferred		13,500		
—common		29,997		
Shares of Canadian Silica held by Industrial and cancelled on amalgamation			5,317,633	
Shares converted (common)	820,000	3	405,372	
at the rate of	1 :1 new	1 :1 new	11 :1 new	
Issued and outstanding shares of the Amalgamated Company	820,000	3	36,852	856,855

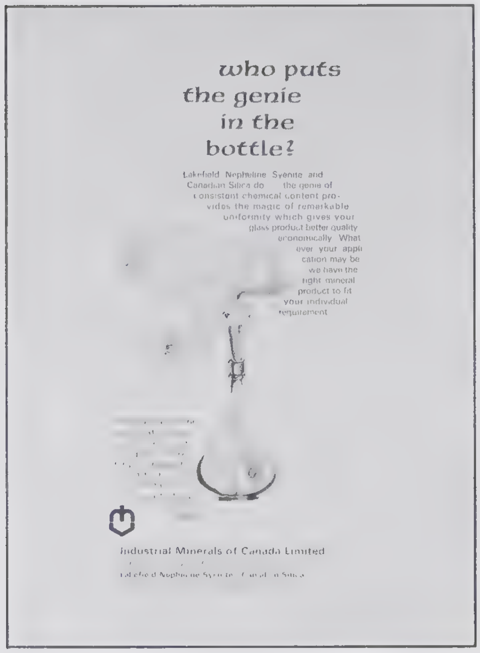
	Issued capital	Contributed surplus	Retained earnings
(b) Balances as shown on the consolidated balance sheet of Industrial Minerals as at 31st December 1964	$6,150,000	$374,964	$638,432
Minority interest in Indusmin as at 31st December 1964	29		7
Balances as shown on the balance sheet of Canadian Silica as at 31st December 1964	2,449,964		42,734
	8,599,993	374,964	681,173
deduct			
Cancellation of 5,317,633 shares of Canadian Silica held by Industrial Minerals	2,276,433		39,707
	$6,323,560	$374,964	$641,466

4. As the amounts to be claimed in respect of depreciable assets and development expenditures in determining income subject to taxes for 1965 exceed the amounts written off in the accounts, taxes based on income have been reduced by $45,000 and the net profit increased by the same amount.

The amounts claimed to 1965 by the company and its predecessors under the provisions of the income tax acts in respect of depreciable assets and development expenditures have been greater than the amounts written off in the accounts and have resulted in a deferment of income taxes of $260,000 as at 31st December 1965.

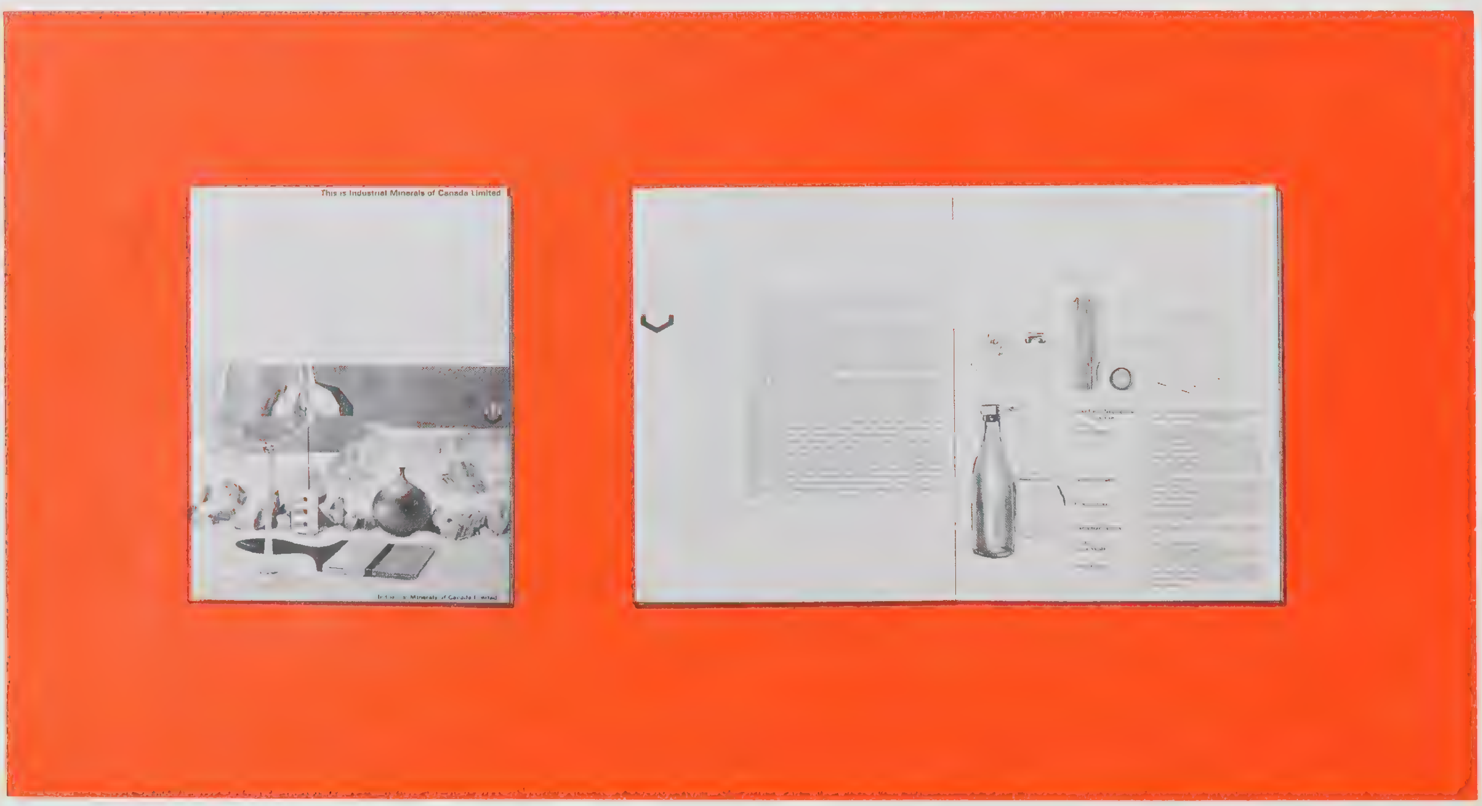
Nepheline Syenite and Silica are found in a great many products that we use every day—around the home, in the automobile, and in construction. For your interest and information, here is a partial list of these products:

tumblers and other glass tableware, ash trays, glass or ceramic artware, vases, glass containers for soft drinks and other beverages, dinnerware, knife sharpeners, paints, carpet backing, watches, T.V. picture tubes, bath and sanitary fixtures, floor tiles, light bulbs, windows, concrete block, brick, enamel for kitchen appliances, floor and wall tile, fibre glass drapes, metallic parts from sand molds, seat covers.



New advertisements promoting the use of Nepheline Syenite and Silica in trade publications.

Shown below is the new Industrial Minerals corporate brochure now being produced.



PRODUCTION FACILITIES

General Manager—D. C. McDonald
Metallurgical Engineer—H. Maidment
Consulting Mechanical Engineer—K. Leidhold
Accounting Supervisor—J. Donovan

Nepheline Syenite—Nephton, Ontario

Resident Manager—D. L. Murdy
Mill Superintendent—K. Blower
Mining Superintendent—R. Matthews
Mechanical Superintendent—R. G. Barker
Mine Accountant—K. Morley
Quality Control Supervisor—J. Kriens
Safety Engineer—J. P. Creighton
Customer Services—G. H. Taylor

Silica—St. Canut, Quebec

Resident Manager—J. G. Gauthier
Production Superintendent—Roger Gagnon
Mill Superintendent, Plant No. 1—B. Villeneuve
Mill Superintendent, Plant No. 2—W. T. Walker
Quarry Foreman—H. LeBlanc
Mine Accountant—G. M. Tessier
Quality Control Supervisor—Ray Gagnon
Customer Services—R. Levert

Silica—Whitby, Ontario

Resident Manager—I. Crawford

AMERICAN NEPHELINE CORPORATION

Technical Centre and Sales Office, 4720 Kenny Road, Columbus 21, Ohio

Directors and Officers

President and Director—L. A. Holmes
Vice-President and Director—Dr. R. C. Wilson
Vice-President and Director—W. B. Midgette
Director—J. H. Turner
Director—D. D. Anderson
Assistant Secretary—S. Pfister

industrial minerals of canada limited minéraux industriels du canada limitée

annual REPORT 1966

The enclosed material is Naugahyde, used extensively in covering furniture, and containing Lakefield Nepheline Syenite. Naugahyde is produced by Uniroyal (1966) Ltd. and is a registered trademark.

OPERATING SUMMARY

Net Sales	$4,448,471
Depreciation and amortization	723,823
Earnings before income tax	1,003,408
Income tax	315,600
Net profit	687,808
Cash recovered from operations	1,411,631
Dividends paid	471,270

FINANCIAL POSITION

Current assets	$2,722,084
Current liabilities	474,070
Working capital	2,248,014
Current ratio	5.74:1
Equity	7,658,031

PER SHARE

Net profit	$ 0.80
Dividends paid	0.55
Equity	8.94
Cash recovered from operations	1.65

MISCELLANEOUS

Issued capital—shares	856,855
Number of Shareholders	1,800
Number of Employees	179

Shares listed—Toronto Stock Exchange
—Canadian Stock Exchange

The Annual Meeting of the Shareholders of Industrial Minerals of Canada Limited will be held in the Elizabeth Room, King Edward Sheraton Hotel, 37 King Street East, Toronto, on Thursday, the 6th day of April, 1967 at the hour of 2:30 o'clock in the afternoon.

DIRECTORS

P. L. Dessaulles—Montreal, Quebec
Senior Partner Law firm—Dessaulles & Dawson

H. J. Fraser—Toronto, Ontario
President and Managing Director—
Falconbridge Nickel Mines Limited

F. D. Hart—New York, New York
Administrative Director—
American Gas Association, Inc.

J. J. Mather—Toronto, Ontario
Executive Vice President and Managing Director—
Industrial Minerals of Canada Limited

J. T. McWhirter—Toronto, Ontario
Treasurer—Falconbridge Nickel Mines Limited

P. N. Pitcher—Toronto, Ontario
Vice President—Minerals Division—
Falconbridge Nickel Mines Limited

G. T. N. Woodrooffe—Toronto, Ontario
Vice President—Finance—
Falconbridge Nickel Mines Limited

OFFICERS

H. J. Fraser—*President*

J. J. Mather—*Executive Vice President and Managing Director*

R. C. Wilson—*Director of Research*

D. D. Anderson—*Secretary*

J. D. Krane—*Assistant Secretary*

J. M. Donovan—*Treasurer*

SALES OFFICES

General Sales Office—7 King Street East, Toronto 1, Ontario

General Sales Manager—C. M. Woodruff

American Nepheline Corporation—Suite 6 - 11 West Cooke Road, Columbus, Ohio 43214.

SALES REPRESENTATIVES IN:

Germany, France, Holland, Belgium, United Kingdom, Italy, Australia and Greece.

SUBSIDIARY:

American Nepheline Corporation. Wholly-owned

TRANSFER AGENTS

Crown Trust Company—302 Bay Street, Toronto

AUDITORS

McColl, Turner & Co., Peterborough, Ontario

SOLICITORS

Roberts, Archibald, Seagram & Cole, Toronto, Ontario

TEN-YEAR STATISTICAL SUMMARY

	1957	1958	1959
Sales	$2,054,204	$1,776,088	$1,814,827
Profit before write-offs and taxes	612,313	608,047	561,921
Depreciation and amortization	389,135	380,575	372,543
Corporation income taxes	68,500	67,800	59,000
Net income	154,678	159,672	130,378
Net income per share	.38	.39	.32
Shareholders' equity	2,394,312	2,510,579	2,514,757
Shareholders' equity per share	5.82	6.13	6.14
Dividends	164,000	164,000	164,000
Dividends per share	.40	.40	.40
Expenditures on plant and equipment	134,151	77,803	81,930

per share calculations 1963 and prior years—410,000 shares
per share calculations 1964 —820,000 shares
per share calculations 1965 and 1966 —856,855 shares

1960	1961	1962	1963	*1964	*1965	1966
$1,772,064	$1,544,247	$1,827,981	$2,000,318	$3,785,218	$3,797,816	$4,448,471
541,586	592,686	631,350	725,502	1,136,653	1,385,098	1,727,231
364,925	376,940	374,439	426,127	711,955	681,052	723,823
51,000	70,232	58,702	21,054	135,000	220,000	315,600
125,661	145,514	198,209	278,321	289,698	484,046	687,808
.31	.35	.48	.68	.35	.56	.80
2,557,228	2,630,071	2,828,798	2,950,320	7,339,990	7,446,383	7,658,031
6.25	6.40	6.90	7.19	8.95	8.69	8.94
82,000	82,000	123,000	164,000	205,000	421,056	471,270
.20	.20	.30	.40	.50	.50	.55
44,253	34,538	148,643	205,086	380,040	319,808	315,398

*Includes Canadian Silica Corporation Limited-prior to amalgamation

TO THE SHAREHOLDERS

The year 1966 was another year of growth and achievement. Sales, earnings and dividends were the highest in the history of your company.

All process plants operated at near-capacity levels. Expansion programs have been undertaken to meet the anticipated increase in demand for 1967 and subsequent years.

As a result of negotiations initiated in 1966, your company acquired on February 1st, 1967, for $300,000 and 60,000 shares of Industrial, all those assets of a competitor, Simsil Mines, Inc., related to its silica operations in Quebec. This acquisition means that your company not only has two independent sources of supply, it can now offer a much broader silica product line by virtue of the addition of the coarse grades obtainable from the quartzite ore.

In 1967, two new glass plants will be placed in operation in Ontario and a third will be expanded. This caused us to revitalize and speed up our program of exploration for a suitable silica deposit in Ontario. A very promising area of 4,000 acres has been staked. The chemical analyses of the surface samples are most encouraging. The diamond drilling program will be initiated as soon as weather permits.

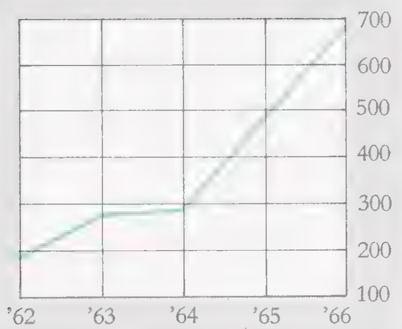
PROFITS

	1966	1965
Consolidated net profit		
—dollars	$ 687,808	$ 484,046
—per share	80.0¢	56.5¢
—as a % of sales	15.4%	12.75%
Profit after taxes and before write-offs	$1,411,631	$1,165,098
Provision for depreciation	$ 649,023	$ 629,114

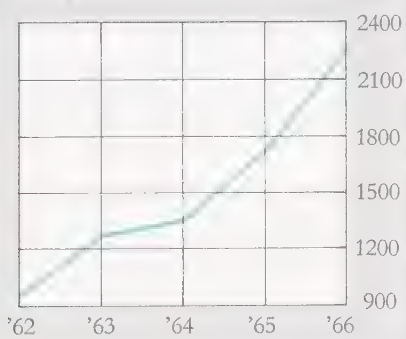
The following is the policy of writing depreciation in the accounts: The rate of write-off for quarry and mobile equipment is $16\frac{2}{3}\%$ of cost each year, and for the remaining elements $8\frac{1}{3}\%$.

The unit variable costs of production were higher than in 1965 due to substantial increases in the costs of labour, goods and services. On the other hand, the average revenue per ton sold was virtually unchanged. Price increases, on a selective basis and in particular for silica products, will be necessary in 1967.

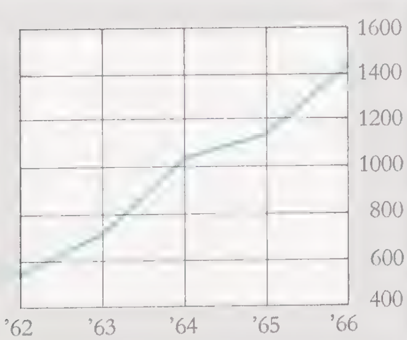
NET EARNINGS Thousands of $



WORKING CAPITAL Thousands of $



CASH FLOW Thousands of $



FINANCIAL

Cash recovery from operations - - - - -	$1,411,631
Working capital position as of 31 December, 1966 - - - - - - - - -	$2,248,014

The Accounts Receivable at the year end amounted to $718,633. This is 10.6% of the total billing figure of $6,765,003. The difference between the total billing figure and the dollar volume of sales, $4,448,471, represents the freight charges prepaid.

DIVIDENDS

Dividend payments in 1966 totalled $471,270.

RECORD DATE	DATE PAID	¢ PER SHARE
10 June	24 June	20
29 Nov.	15 Dec.	25 + 10
	Total per share	45 + 10

Total dividends paid since inception—$2,526,326.

SALES

Sales in dollars	1966	1965	% INCREASE
Nepheline Syenite - -	$2,678,976	$2,235,511	19.8
Silica - - - - - - -	1,769,495	1,562,305	13.2
Total	$4,448,471	$3,797,816	17.1

The dollar volume of sales, and the tons sold, for both nepheline syenite and silica were at an all-time high. There were no price increases for either commodity.

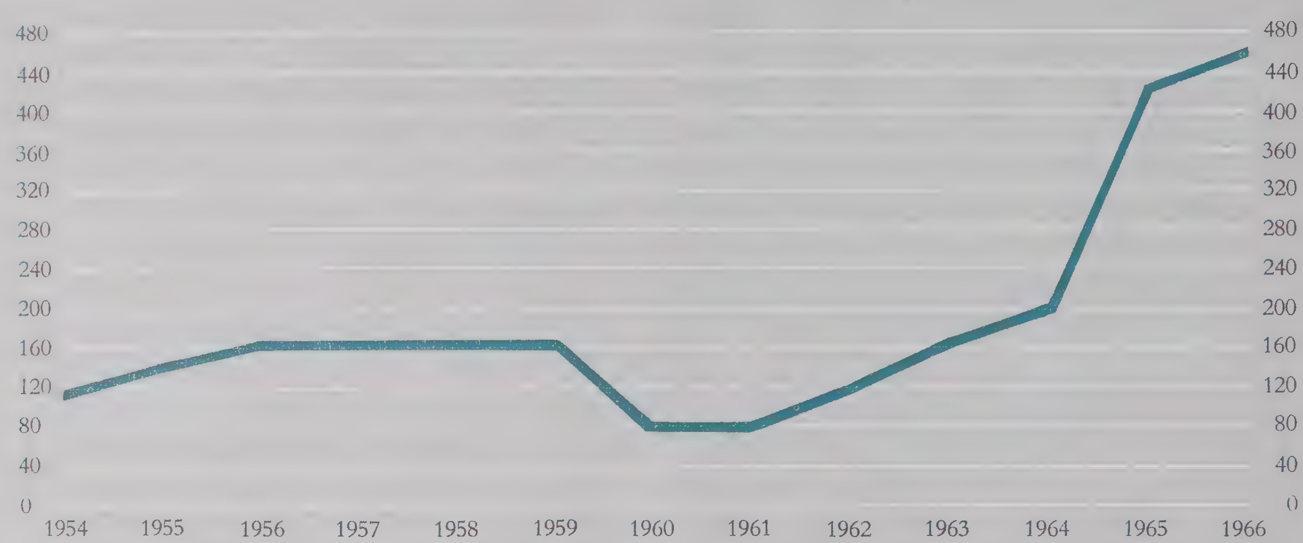
During the year, strikes in the trucking and rail industries, as well as at the Port of Montreal, often made it most difficult and costly to maintain deliveries. In addition, the plants of several customers were struck, thus adversely affecting the sales volume.

76.3% of the nepheline syenite sold was exported. Sales to the United States accounted for 75% of the export volume. The demand overseas, particularly in Europe, remained strong. Satisfactory growth was obtained in the traditional markets in glass and ceramics. The new product, A40, introduced late in 1965, brought very rewarding growth in specialty markets. Gains also were recorded in paint and plastics where nepheline syenite is finding widening acceptance.

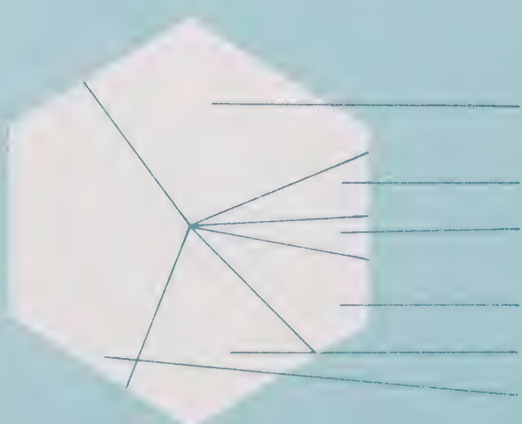
The markets for our silica are predominantly in the Province of Quebec. Gains were made in Eastern Ontario following the decreases in the rail freight rate late in 1965.

DIVIDEND RECORD

Thousands of $



DISTRIBUTION OF SALES DOLLAR



	% 1966	% 1965
Wages, salaries and employee benefits	28.17	27.60
Taxation	7.09	5.79
Retained and used in the business	4.87	1.66
Dividends	10.59	11.09
Depreciation and amortization	16.27	17.93
Materials, supplies and service	33.01	35.93
	100.00	100.00

PRODUCTION

The company's ore reserves of both nepheline syenite and silica, in relation to current market requirements, are sufficient for in excess of thirty years. The annual diamond drilling program was completed.

Both process plants operated at levels approaching full capacity establishing all-time records for tons produced.

The nepheline syenite operation was hard pressed at times of peak demand, as occasioned by overseas deliveries, to meet sales commitments. However, delivery schedules were maintained. In December a program of expansion was undertaken which will provide by May 1st, 1967, an additional 200 tons per day of glass grade products.

During the year additional capacity was added to both plants 1 and 2 at the St. Canut silica operations. The Whitby plant, destined to become solely a distribution facility, processed material as required until the expansion program was completed.

The Simsil operations consist of a mining and primary process operations at St. Donat, Quebec, and a secondary process plant in Montreal. By late 1967 the process of integration will have been completed. The functions of the Montreal plant will be divided between St. Donat and St. Canut and the Montreal plant will be closed.

CAPITAL AND DEFERRED DEVELOPMENT EXPENDITURES

Expenditures in 1966 amounted to $326,000, distributed as follows:

	NEPHELINE SYENITE DIVISION	SILICA DIVISION
Deferred development - - - -	$ 28,000	$ 6,500
Capital additions - - - - - - -	151,500	163,500
	$179,500	$170,000

The principal expenditures within the nepheline syenite division were for a new portable compressor in the quarry, replacement of two vehicles, a vacuum-cleaning system in the mill, three new magnetic separators which will be used in the 1967 expansion program, and a warehouse for bagged material.

Practically all of the capital expenditures in the silica division were related to the expansion programs in plants 1 and 2 at St. Canut. Plant #1 is the flour-production facility, #2 produces sand grades. In addition, a grinding unit was purchased for installation in plant #1 in 1967.

An expenditure of $595,500 has been authorized for 1967.

	NEPHELINE SYENITE DIVISION	SILICA DIVISION
Deferred development - - - -	$ 10,000	$ 18,000
Capital additions - - - - - - -	422,200	145,300
	$432,200	$163,300

EMPLOYEES

Total number of employees 31 December, 1966—179.

Three labour contracts are in force with termination dates as follows:

Nephton, Ontario - - - - -	11 October, 1968
Whitby, Ontario - - - - -	18 December, 1968
St. Canut, Quebec - - - - -	12 January, 1969

RESEARCH AND DEVELOPMENT

Early in 1966 a new Technical Centre was opened in Don Mills, a suburb of Toronto. For the first time the company's research and development activities have been concentrated at a single location. The Technical Centre is responsible for product-application research, process- and product-development, and sales technical service. This move has brought more efficient utilization of technical personnel and facilities and benefits already have been realized.

For the silica division, the Technical Centre is developing methods for product improvement that show real promise. Studies for the nepheline syenite division in the fields of ultra-fine grinding and the treatment of other ore types are well advanced.

As our knowledge of paint and plastics grows, our conviction that nepheline syenite is a superior mineral filler for these materials is enhanced. Increasing acceptance in the market place supports this view.

EXPLORATION AND CORPORATE DEVELOPMENT

There were two significant developments during the year.

The first was the successful conclusion on 1 February, 1967, of negotiations for the purchase of certain assets from Simsil Mines Inc. The transfer of ownership and integration of operations with our own was completed with only a minor disruption in the continuity of supply. The quartzite deposit is of excellent quality. Reserves conservatively are estimated to be in excess of three million tons.

In the second instance, a major staking program in Ontario obtained for us 100 claims (4,000 acres) on a massive quartzite deposit. Our studies indicate that the location, on water, will permit economic deliveries within Ontario and major markets in the U.S.A. bordering on the Great Lakes. The target date for completion of the drilling and sampling program is 1 June, 1967.

On behalf of the Board of Directors, I wish to thank the officers and employees for their performance in 1966, giving us the best year in the history of the company.

Mr. R. C. Mott, who has been of valuable assistance as a Director of the company, retired in 1966. Mr. P. N. Pitcher was elected to the Board.

Respectfully submitted

H. J. Fraser.

CONSOLIDATED STATEMENT OF OPERATIONS

for the year ended 31st December 1966 (with comparative figures for 1965)

	1966	1965
Sales of all products	$4,448,471	$3,797,816
Cost of products sold	2,309,268	1,957,771
Selling, general and administrative expenses (including remuneration to directors, as such, of $2,496 in 1966 and $1,302 in 1965)	461,653	477,526
	2,770,921	2,435,297
Operating profit before providing for development expenditures and depreciation	1,677,550	1,362,519
Development expenditures written off	74,800	51,938
Depreciation of plant and equipment	649,023	629,114
	723,823	681,052
Operating profit	953,727	681,467
Income from short term investments	49,681	22,579
	1,003,408	704,046
Provision for taxes on income (note 4)	315,600	220,000
Net profit for the year	$ 687,808	$ 484,046

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Industrial Minerals of Canada Limited and its wholly-owned subsidiary company, American Nepheline Corporation, as at 31st December 1966 and the consolidated statements of operations and retained earnings for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of operations and retained earnings present fairly the financial position of the companies as at 31st December 1966 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination also included the accompanying statement of source and disposition of funds which, in our opinion, when considered in relation to the aforementioned financial statements, presents fairly the sources and dispositions of funds of the companies for the year ended 31st December 1966.

Peterborough, Canada
10th February 1967

McColl, Turner & Co.
Chartered Accountants

CONSOLIDATED BALANCE SHEET

as at 31st December 1966 (with comparative figures for 1965)

ASSETS

	1966	1965
CURRENT:		
Cash	$ 209,684	$ 331,477
Short term investments, at cost, approximately market value	1,548,182	671,238
Accounts receivable for product and freight	718,633	763,854
Inventories of crude ore and finished products—valued at the lower of average cost or net realizable value	172,478	155,897
Prepaid expenses and other current assets	73,107	21,545
	2,722,084	1,944,011
FIXED:		
Buildings, plant and equipment, at cost	8,194,335	7,921,617
less		
Accumulated depreciation	5,463,388	4,852,154
	2,730,947	3,069,463
Mining properties and land, at cost	127,620	127,620
Excess of the cost over the net book value of the underlying assets acquired	1,574,482	1,574,482
	4,433,049	4,771,565
OTHER:		
Mine and mill supplies, at cost	239,777	237,519
Deferred development expenditures, less amounts written off	125,644	165,973
Other mining properties and expenditures thereon	580,571	572,282
Special corporation tax, refundable	45,267	—
	991,259	975,774
	$8,146,392	$7,691,350

LIABILITIES AND CAPITAL

	1966	1965
CURRENT:		
Accounts payable and accrued charges	$ 140,181	$ 90,298
Estimated income taxes payable	329,480	129,337
Principal payments on mortgage loans due within one year	4,409	6,632
	474,070	226,267
LONG TERM:		
Mortgage loans, less amounts due within one year	14,291	18,700
SHAREHOLDERS' EQUITY: (note 3)		
Capital		
Authorized—1,000,000 shares with no par value		
Issued and fully paid—856,855 shares	6,323,560	6,323,560
Contributed surplus	374,964	374,964
Retained earnings	959,507	747,859
	7,658,031	7,446,383
	$8,146,392	$7,691,350

Approved on behalf of the Board:

H. J. FRASER *Director*

J. J. MATHER *Director*

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the year ended 31st December 1966
(with comparative figures for 1965)

	1966	1965
Retained earnings at 1st January	$ 747,859	$ 641,466
Net profit for year	687,808	484,046
Gain on sale of marketable securities	—	60,424
	1,435,667	1,185,936
deduct		
Dividends paid	471,270	421,056
Loss on disposal of equipment	4,890	17,021
	476,160	438,077
Retained earnings at 31st December	$ 959,507	$ 747,859

STATEMENT OF CONSOLIDATED SOURCE AND DISPOSITION OF FUNDS

for the year ended 31st December 1966
(with comparative figures for 1965)

	1966	1965
SOURCE OF FUNDS:		
Net profit for the year	$ 687,808	$ 484,046
Charges against operations for depreciation and development expenditures which did not in themselves require a cash outlay during the year	723,823	681,052
Funds derived from operations	1,411,631	1,165,098
Sale of marketable securities	—	60,425
	1,411,631	1,225,523
DISPOSITION OF FUNDS:		
Expenditures on land, plant, equipment and mine development	349,868	332,858
Expenditures on other mining properties	8,289	40,943
Dividends paid to shareholders	471,270	421,056
Increase in mine and mill supplies	2,258	10,151
Provision for principal payments due within one year	4,409	6,632
Special corporation refundable tax	45,267	—
	881,361	811,640
Resulting in an increase in working capital of	530,270	413,883
Working capital at beginning of year	1,717,744	1,303,861
Working capital at end of year	$2,248,014	$1,717,744

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The consolidated financial statements for 1966 reflect the financial position and the results of the operations of Industrial Minerals of Canada Limited and its wholly-owned subsidiary company, American Nepheline Corporation.

2. Assets and liabilities in currencies other than Canadian dollars have been converted into Canadian dollars at current quoted rates of exchange at 31st December 1966 except fixed assets and the related accumulated depreciation which have been converted at the rates prevailing when the expenditures on the fixed assets were made. Revenues and expenses in currencies other than Canadian dollars have been converted into Canadian dollars at the average quoted rates of exchange except that provisions for depreciation have been converted at rates of exchange prevailing when the expenditures on the related fixed assets were made.

3. On 12th January 1967 the company executed an option agreement with Simsil Mines Incorporated (No Personal Liability). This agreement gave Industrial Minerals of Canada Limited the right to acquire certain assets owned by the vendor and located at St. Donat and Lachine, Quebec for $300,000 in cash and 60,000 shares of treasury stock. The option was exercised on 23rd January 1967 subject to adjustments on closing and, as a result, 60,000 shares were allotted on that date to the vendor pursuant to the agreement. The assets acquired—which may be generally described as including land and mineral rights at or near St. Donat, inventories of processed stone, mine and mill supplies, buildings at St. Donat, machinery and equipment at St. Donat and Lachine—were valued by the directors at a net figure of $1,284,971 after making provision for debts of $33,889 against the equipment.

4. As the amounts to be claimed in respect of depreciable assets and development expenditures in determining income subject to taxes for 1966 exceed the amounts written off in the accounts, taxes based on income have been reduced by $66,000 and the net profit increased by the same amount.
The amounts claimed to 1966 by the company and its predecessors under the provisions of the income tax acts in respect of depreciable assets and development expenditures have been greater than the amounts written off in the accounts and have resulted in a deferment of income taxes of $326,000 as at 31st December 1966.

PRODUCTION FACILITIES

General Manager—D. C. McDonald

Nepheline Syenite Division—Nephton, Ontario

Resident Manager—D. L. Murdy

Production Superintendent—D. Cook

Silica Division—St. Canut, Quebec

Resident Manager—R. Lavertu

Production Superintendent—P. Gauvreau

Silica Division—Whitby, Ontario (distribution point)

Resident Manager—J. Kirk

TECHNICAL CENTRE

1933 Leslie Street, Don Mills, Ontario

Research Director—Dr. R. C. Wilson

Chief Engineer—H. Maidment

Chief Chemist—J. Kriens

AMERICAN NEPHELINE CORPORATION

Suite No. 6 - 11 West Cooke Road, Columbus, Ohio 43214

DIRECTORS AND OFFICERS

President and Director—D. D. Anderson

Vice President and Director—T. Rahal

Director—J. H. Turner

Director and Secretary—Mrs. Pfister

Director—J. M. Donovan